

Salomon Brothers, along with two Nobel Prize winners, a former Federal Reserve vice chairman and other partners whom Business Week called the "dream team."

Using as much as \$100 billion in borrowed money, Long-Term Capital made some disastrously stupid investments and teetered last week on the brink of failure.

What should happen to a firm that makes terrible bets on esoteric markets? It should go bust, of course. Its partners and investors should suffer swift and onerous losses—at the very least as a signal to others to stay away from risky investments in the future.

Instead, Long-Term Capital is being rescued—not with government money (thank heaven for small favors) but through not-so-subtle pressure placed by government regulators on banks and investment firms to cough up \$3.5 billion. It's a classic case of moral hazard run wild.

Paul Volcker, the former chairman of the Federal Reserve, was justifiably outraged: "Why should the weight of the federal government be brought to bear to help a private investor?" Good question.

The rescuers were brought together last week by the New York Fed at the same time that Alan Greenspan was hinting in Congress that the Fed would cut interest rates.

The Fed's "official sponsorship" (Volcker's term) of the rescue was the result, said a Fed spokesman, of its "concerns about the good working of the marketplace, large risk exposure and the potential for a disruption of payments." In other words, the failure of Long-Term Capital posed a systemic risk; it could set off a cascade of other failures, leading to a sharp decline in bond and stock prices and perhaps bankruptcies.

I am skeptical the effects would be so dire. Yes, some bonds might plummet, but that hurts current owners of those bonds. Other investors could benefit by being able to buy at the lower prices. Why should the Fed prevent them?

The truth is that no one knows what would have happened in the short-term if LTC had been allowed to fail. In the longer term, the effects are only too obvious: The rescue will encourage more irresponsible risk-taking by investors, just as the International Monetary Fund's bail out of Mexico encouraged investors to make inappropriately risky investments in emerging markets in Asia, leading to more IMF bailouts and a new moral-hazard cycle.

Perhaps the Fed did dampen systemic risk in the LTC case, but as Caroline Baum of Bloomberg Business News reported Friday, "Traders seem to be taking a different message away from the whole affair. They see an increase in moral hazard, with lenders making increasingly risky bets with the knowledge that someone will bail them out, as the doctrine of 'too big to fail' spread from financial institutions to corporations to countries to private investors."

But we don't need to look to Mexico or Greenwich for examples to moral hazard run wild. Look to Capitol Hill, where a bill is now racing through Congress that would bail out companies that made imprudent bids for wireless telephone licenses.

The firms bid too high in a 1996 FCC auction. At the very least, it seems, they should lose the \$1.3 billion they put up in down payments. But, instead, the House Commerce Committee on Thursday unanimously approved a deal that lets them renege on their bid obligations and get full refunds on what they've already paid the government.

Not only is that bailout grossly unfair, it will also encourage reckless behavior in future auctions. And, speaking of reckless behavior: There's a parallel to be drawn between moral hazard in the LTC, wireless and IMF cases and moral hazard in the current scandal involving President Clinton.

Americans worry, for instance, that impeaching and convicting Clinton could hurt the economy and our world standing. This is a legitimate concern—but I'm more afraid of moral hazard. If we let powerful people get away with doing bad things, they will not only do them again, but encourage others to follow their example.

#### CRISIS IN KOSOVO

The SPEAKER pro tempore (Mr. EVERETT). Under a previous order of the House, the gentleman from New York (Mr. ENGEL) is recognized for 5 minutes.

Mr. ENGEL. Mr. Speaker, I want to address the House today. I want to call attention to a very, very serious crisis in the world and that is in the Province of Yugoslavia called Kosovo.

We read about it in the paper today on the front page, that there were several massacres, that bodies were found of innocent civilians, men, women and children, as the Serbian police forces and military units continue their campaign of genocide and ethnic cleansing against ethnic Albanians in Kosovo.

Kosovo is a place where over 92 percent of the population, 2 million people, are ethnic Albanians, and they are totally dominated and ruled by Belgrade, by the Serbs who comprise less than 10 percent of the population. These people for 10 years have had no freedoms, no political freedoms, no economic freedoms, no social freedoms. Unemployment is rampant, 80 percent, 90 percent. No hope. And on the ground, the situation gets worse and worse and worse.

We have to take a stand before we see Bosnia repeat itself. Bosnia is indeed repeating itself. That ended up with 200,000 innocent people slaughtered. Kosovo could be even worse.

Now, I have called and I will call again and say it again, we read in the paper today that NATO is considering air strikes in order to stop the Serbs from killing innocent civilians. We have been saying this time in and time out. Actions speak louder than words. Mr. Speaker, it is time for action. We need to have immediate NATO air strikes on Serbian positions in Kosovo so that the innocent civilians will not continued to be slaughtered.

We now have at least 300,000 homeless civilians, more than a tenth of the entire population, some people would say it is as much as a quarter of the entire population, driven from their homes, and the pattern is like this. First Serbian artillery shells the villages, causing innocent civilians to flee in panic, fleeing into the hills and into the mountains. Then the next thing they do after the civilians have left is they come in and loot the houses and they steal everything they can. And then finally they burn the houses down to the ground.

So we have a situation where refugees now cannot have a place to go back to. And we are facing, as winter is approaching, perhaps another week or two at the most, where we need to get

in so that innocent civilians can have humanitarian aid. The Serbs are keeping out humanitarian relief workers to get food and lodging and clothing to these people. Will the West again wait until it is too late?

I have a letter signed by 18 of our colleagues on both sides of the aisle calling on the President to issue immediate air power with our NATO allies to stop the carnage; to indict Slobodon Milosevic, the leader of Yugoslavia, who is responsible for this, who because of Serbian nationalism has again, as he did in Bosnia, caused the death of innocent people.

The short-term problem, Mr. Speaker, is that we need to get aid to these people because what is going to start to happen is they are going to start to die because of the cold and because of starvation. And that is the immediate concern that the world should have.

Of long range concern is what to do in Kosovo, and I have said time and time again and will say it again, self-determination for the people of Kosovo is the only answer. Why should the Albanians in the former Yugoslavia be treated any different than any of the other peoples that were allowed to form their own nation? The Croats, the Bosnians, the Slovenians, the Macedonians and so on and so forth.

Self-determination is a basic principle in which we in America believe, and if it is good enough for all the other ethnic groups in the former Yugoslavia, it should be good enough for the Albanians as well, particularly since this is the group that was getting the worst end of the stick in Yugoslavia, and certainly now that we are seeing genocide and ethnic cleansing rear its ugly head on the continent of Europe.

The time for action is now. The only thing that Mr. Milosevic understands is the credible use of force. He will only stop as he did in Bosnia, when we had NATO air strikes and he knew that NATO and, more importantly, the United States meant business. If he thinks these threats are empty, and quite frankly they have been empty for months upon months upon months. We have said that we would threaten, we have threatened him, we have said that we would bring in NATO air power, we have done all kinds of flying, but he knows it does not mean a hill of beans. The only thing he will understand is if he knows the West is ready to take action.

Now, shamefully our allies in Germany and Italy are trying to say that the United Nations Security Council needs to approve before NATO could move forward. I did not know the United Nations had a veto on what NATO can do. I think the NATO alliance needs to take action and needs to take action now, from a humanitarian point of view. Also, the thing is that this can explode into a wider war and drag our NATO allies in if we do not act now. The time for military strikes is now.